

***WTO LITIGATION AND NEGOTIATION:
POTENTIAL IMPLICATIONS FOR
COTTON***

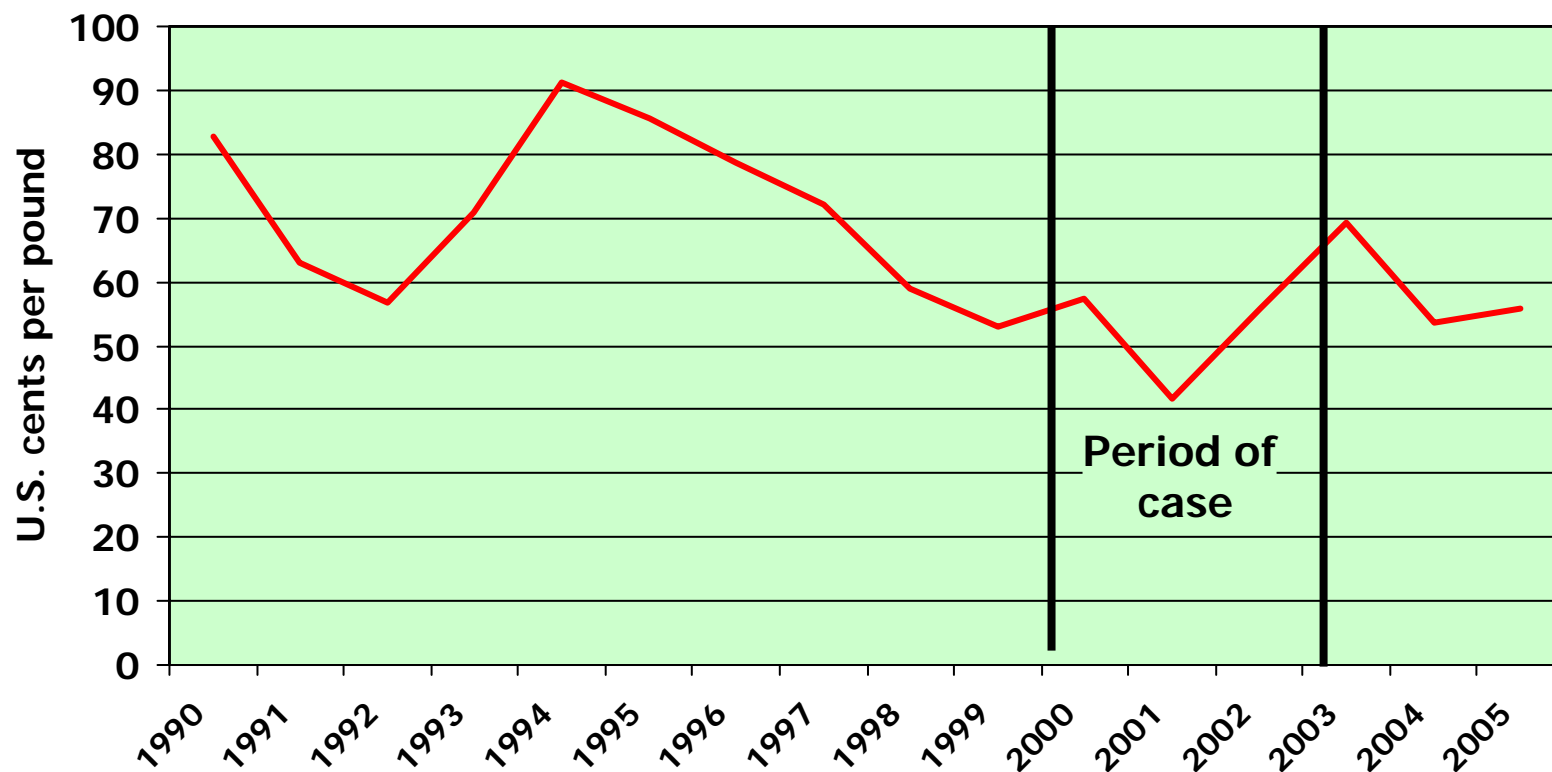
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USDA Agricultural Outlook Forum
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Why Cotton?

- **Starting in late 1990s falling commodity prices, increasing U.S. subsidies**
- **Growing Brazil frustration → looked to soybeans first**
- **2001 cotton price collapse → Brazil switches to cotton for WTO challenge**
- **Crucial role of media, NGO's, economic analysis, timing of WTO negotiations**

What Caused World Cotton Prices to Fall?

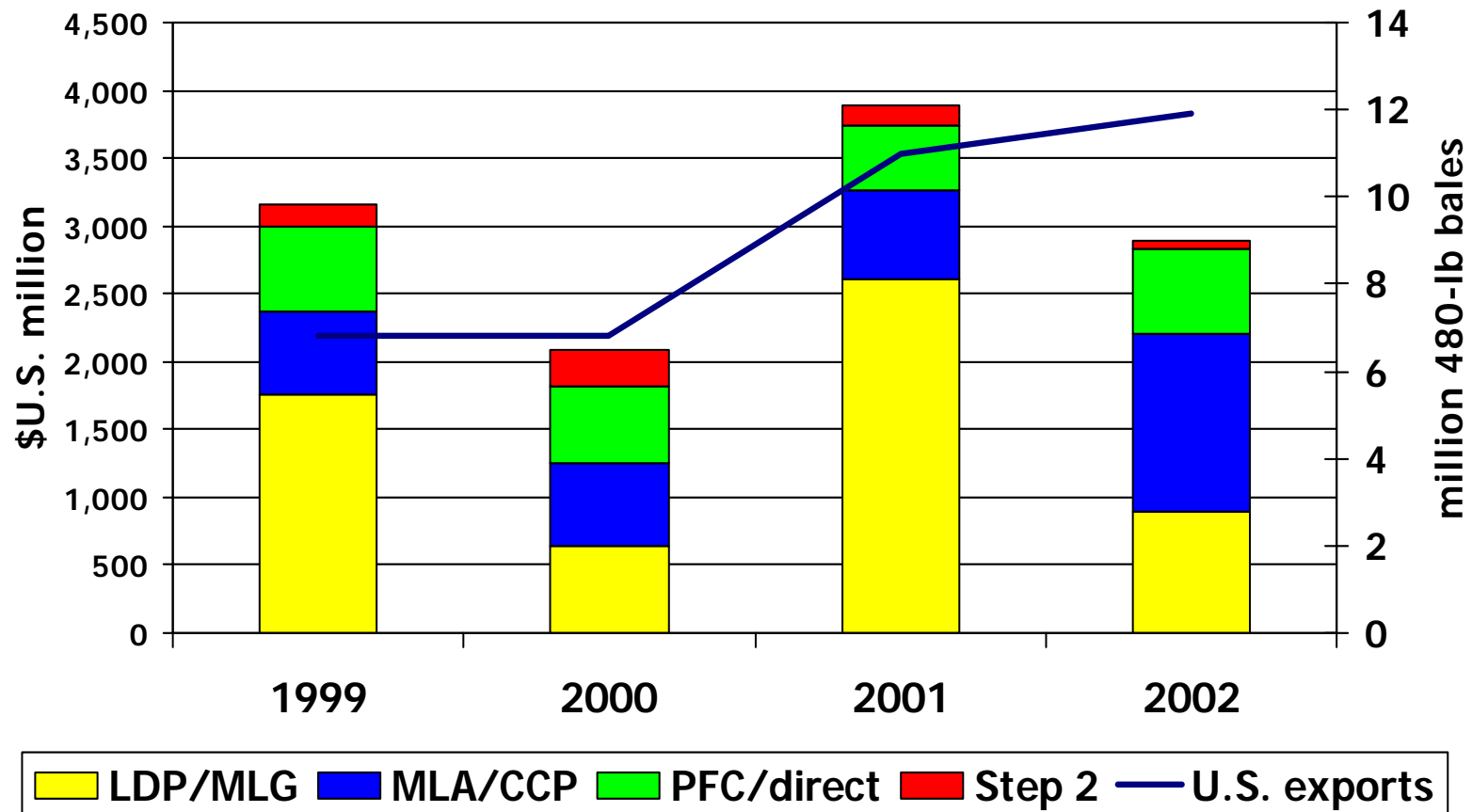
Cotlook NE – marketing year



U.S. Cotton Under the WTO Gun

- Brazil challenged all aspects of U.S. cotton programs (Feb 2003-March 2005)
- Step 2: prohibited export subsidy, import substitution subsidy
- Export credit guarantees (GSM/SCGP): prohibited export subsidies for cotton & other unscheduled commodities
- Serious prejudice: Marketing loans, MLA/CCPs, Step 2

Brazil's Views Largely Prevailed



Compliance Process

- Eliminate *prohibited subsidies* by 7/1/05
- U.S. adjusted GSM/SCGP, July 2005
- Step 2 eliminated as of July 31, 2006
- Brazil requests \$3 billion in retaliation; WTO compliance panel is likely
- Address *serious prejudice* by 9/21/05
- Brazil requested \$1 billion in retaliation; process suspended; compliance panel or arbitration

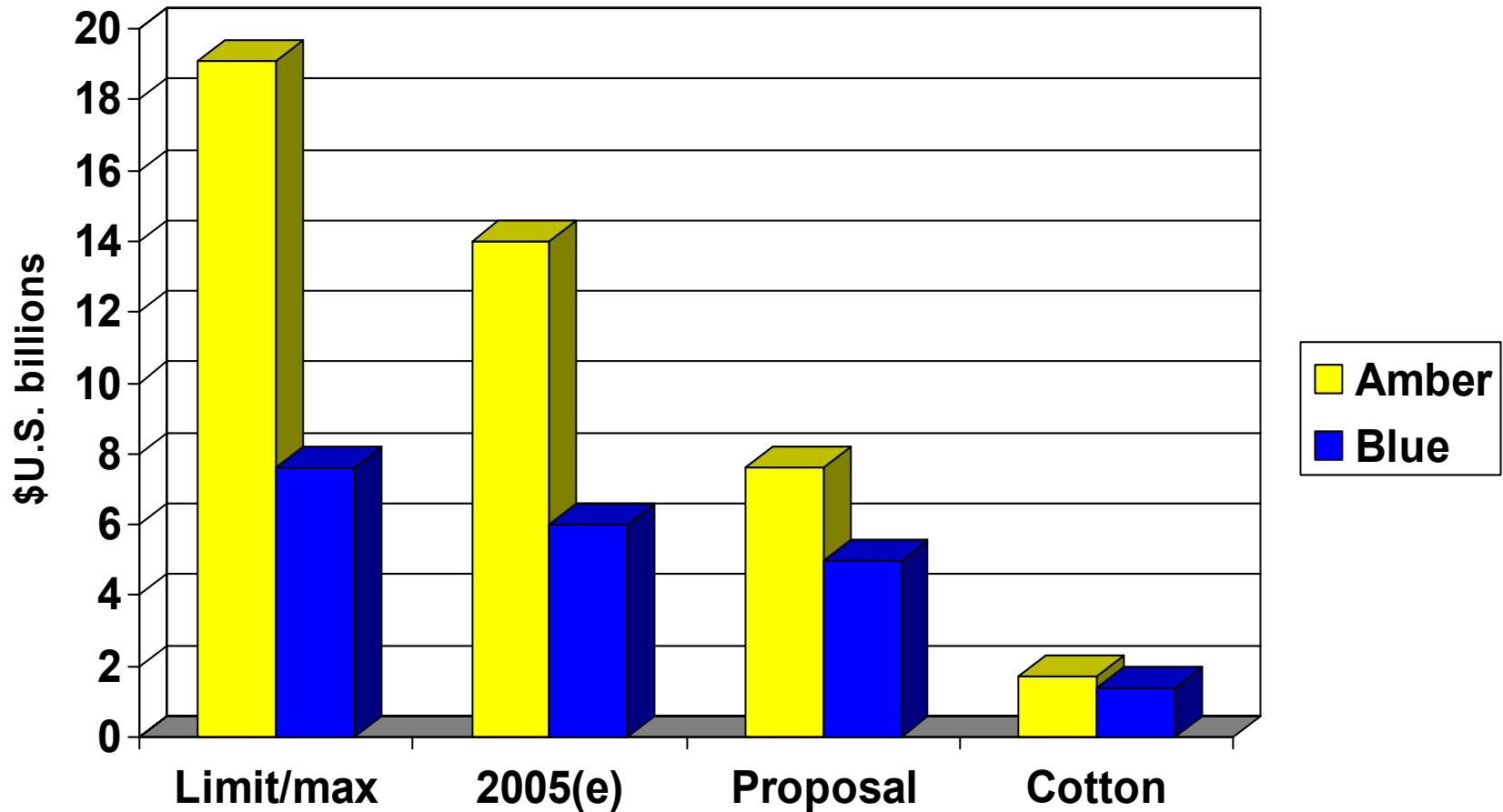
Cotton Stands Out in the WTO

- Prodding by C-4, media coverage, 2003 Cancun Ministerial collapse
- July 2004 Framework: cotton to be treated *ambitiously, expeditiously, specifically*
- C-4 – eliminate cotton subsidies, compensation from subsidizers, development assistance for cotton sectors
- Cotton Subcommittee formed Nov. 2004
- Cotton singled out at Hong Kong – eliminate export subsidies in 2006; DFQF for LDC exports, development assistance

U.S. WTO Proposal

- **Amber box:** cut AMS by 60% over 5 years (marketing loans, price support)
- **Product specific AMS caps:** 1999-01 base
- **Product and non-product specific *de minimis*:** cut by 50%, from 5% to 2.5% of current value of production
- **Blue box:** cap at 2.5% of base period value of production (CCPs)
- **Green box:** no substantial changes, no cap

What Could U.S. Proposal Mean?



WTO Timelines

- Litigation:
 - 6-9 months for compliance panel (prohibited subsidies)
 - quicker if straight to arbitration (serious prejudice)
- Negotiation:
 - April 30 for modalities
 - July 31 for schedules
- Legislation: U.S. TPA expires July 1, 2007

Economic Analysis Plays a Role

- **Early analysis of cotton showed large world price, production, trade effects; focus on U.S. subsidies**
- **FAO review – world price effects of 3-15%; average around 3-5%**
- **Low border measures; main effect from U.S. and EU subsidy elimination**
- **U.S. production, exports fall 14% (FAO)**

Analysis of U.S. Proposal

- **FAPRI analysis of U.S. proposal – need to lower U.S. support prices**
- **11% for loan rates; 7% for target prices**
- **U.S. cotton area falls about 4%, exports fall 4-5%**
- **Producer returns (cash receipts + gov't payments) show sharpest drop**
- **World prices ↑ 2%; world trade ↓ 1%**

Prospects for Change?

- Global effects of eliminating cotton subsidies initially greatly exaggerated
- U.S. subsidies identified as key distorting element
- Litigation: has resulted in some changes in U.S. programs
- Negotiation: WTO agreement suggests more program changes likely